

IP Federation comments on the proposed EU trade secrets directive

Introduction

The IP Federation represents the views of a significant number of major innovative UK companies in matters concerning intellectual property policy. A list of members is attached. Our member companies are extensively involved with IP in Europe and internationally. Not only do they own considerable numbers of IP rights, but they are affected by the activities and IP rights of competitors. They may be either plaintiffs or defendants in IP related court actions.

The proposed Directive

The following are the IP Federation's comments on the proposed Directive of the European Parliament and of the Council on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (2013/0402 (COD)).

The IP Federation remains in favour of harmonisation via an EU Directive and believes the Commission's proposal has much to commend it. That said, for the reasons explained below, we also believe the draft could be improved in certain areas.

General comments

As a general comment, we note that the proposed Directive places significant emphasis on cyber-security and industrial espionage-related issues (see e.g. recital 3). However, the importance of these issues relative to others can be overstated - as commented in our response to the Commission's open consultation, the law relating to trade secrets must deal with a broad range of scenarios, most of which have nothing to do with cyber-security or industrial espionage. Indeed, from the perspective of our members, the biggest legal issues arise in relation to: (i) employees / former employees (i.e. "insiders" to the company); and (ii) commercial counterparties with whom confidential information is shared. It will be important that Member States provide adequate protection in all of these sets of circumstances.

A second general comment is that, given the importance of the proposed Directive and the complexities involved, the legislative process should not be rushed. We would strongly encourage a detailed review of the proposal by an expert working group, once a set of general principals have been agreed between the Member States. Our members would prefer, above all else, to see greater certainty and clarity in the drafting of the Directive. The proposed Directive necessarily leaves much discretion in the hands of

the individual court / judge. However, further time spent at this stage could avoid future legal uncertainty, including unnecessary referrals to the CJEU, with undesirable time and cost consequences for businesses.

A third general point is that, in line with what we understand to be the Commission's intentions, we believe the Directive should expressly state that it only seeks to provide minimum standards of protection. A number of Member States currently provide higher levels of protection, particularly in terms of available remedies. For instance, there are a number of remedies and procedural tools contained in the IP Enforcement Directive (Directive 2004/48/EC) that are available to trade secrets holders in some Member States (e.g. disclosure and pre-action disclosure) but which are not included in the proposed Directive. We do not believe higher standards should be discouraged.*

Specific comments

Our more specific comments focus on the following:

1. The impact of the proposed Directive as regards employees: the text of recital 8 is inconsistent with the definition of "trade secret", potentially suggesting that trade secrets will receive less protection in the context of employer / employee relationships. This would be undesirable, does not appear to have been the Commission's intention, would be inconsistent with TRIPs and should be clarified.
2. The requirement that unlawful acts of acquisition, use or disclosure of trade secrets must be carried out "intentionally or with gross negligence": we believe this is an unnecessary requirement that adds undue complexity and would reduce the effectiveness of the proposed Directive.
3. The potential liability of "innocent" third parties who receive information without initially knowing that it has been acquired unlawfully: we believe the provisions of Article 3(4) could benefit from further clarification. The proposed Directive should also adopt a consistent test throughout.
4. The provisions in Article 3(2) relating to unlawful acquisition: there are serious complexities with these provisions and it is unclear how they will work in practice, particularly with respect to the applicable law (e.g. for acts taking place outside the EU). In addition, where the unlawful acquisition is based on a criminal act (e.g. "theft"), it is unclear whether the criminal or civil standard of proof should be applied. It is also unclear whether a conviction is necessary before a trade secrets action can be commenced.
5. The limitation period in Article 7: the 2 year period provided for is too short and will cause unnecessary litigation, since parties will find

* We note that the final sentence of recital 28 could suggest that, to the extent that remedies are not provided for in the proposed Directive, they are not permitted. This sentence should therefore be deleted.

themselves forced to issue proceedings solely to avoid their suits becoming time-barred. The clarity of this provision could also be improved.

6. The lack of provision for *ex parte* measures: The proposed Directive contains no provisions relating to *ex parte* relief (e.g. search orders and *ex parte* interim injunctions). We support the availability of *ex parte* search orders only when there is a serious prospect that evidence will be destroyed or hidden. The Directive certainly should not prevent the granting of such relief where national law permits (see our third general comment above).
7. The absence of a “loser pays” costs shifting provision: the proposed Directive contains no provision corresponding to that in Article 14 of the IP enforcement directive (Directive 2004/48/EC). We believe such a provision would reduce the potential for abusive litigation and should be included.
8. The provisions relating to the protection of confidentiality during court proceedings: We are generally in favour of the current drafting of the proposed Directive and believe that, despite concerns raised by some Member States, courts throughout Europe should be able to protect confidential information such that it does not automatically and necessarily become public as a result of litigation.

Our views on each of these are more fully explained in turn below.

1. Employer / employee relationships

We note that the proposed Directive contains no provisions relating specifically to the employer / employee relationship. As such, it appears the provisions of Articles 3 and 4 relating to unlawful acquisition, disclosure or use of trade secrets will also be applicable in the employer / employee context.

If this was the Commission’s intention then, in the interests of clarity, we believe it should be expressly stated (e.g. in the recitals). However, the Directive will then inevitably impact upon the established laws of the Member States in this delicate area, where the commercial interests of employers must be balanced against the interests of workers and the public interest.[†]

In this regard, the text of the proposed Directive is problematic because recital 8 states that “trade secrets” should “*not extend to the knowledge and skills gained by employees in the normal course of their employment and which are known among or accessible to persons within the circles that normally deal with the kind of information in question*” (emphasis added). Unfortunately these words appear inconsistent with the definition of “trade secret” in Article 2 of the proposed Directive, which (in keeping with TRIPs)

[†] We note that, in response to the Commission’s consultation, the majority of respondents did not believe the EU should provide uniform contractual rules on non-compete and/or non-disclosure clauses between trade secrets owners and employees (55% of respondents were against this; only 32% were in favour).

allow for the protection of information that is "*not generally known ... or readily accessible*" (emphasis added).

Recital 8 could therefore be taken to mean that trade secrets will be less well protected in the context of employer / employee relationships ("known" and "accessible" being lower thresholds than "generally known" and "readily accessible"). We do not believe this to have been the Commission's intention and, indeed, we believe it would be incompatible with TRIPs. It would be highly undesirable for trade secrets to automatically receive less protection in this context - as noted above, one of the most common ways in which companies' trade secrets are unlawfully acquired and/or misused in practice is via employees and former employees.[‡] The protection of companies against the actions of "insiders" is therefore crucial and we believe the Article 2 / TRIPs wording must be used in recital 8.[§]

On the other hand, we would not wish the proposed Directive to interfere with the legitimate movement of workers between different companies. Whilst the wording of recital 8 should therefore be amended, we believe the text of the Directive should expressly provide either:

- (A) that the extent to which a person can be prevented from making use of trade secrets learnt during the course of their previous employment shall be a matter for national law; or
- (B) that the need to balance the commercial interests of the former employer in protecting its trade secrets, on the one hand, and the public interest in the free movement of labour, on the other, shall be a matter taken into account by any court when exercising its discretion as to remedies (Articles 10 and 12 could be amended accordingly).

2. Requirement that unlawful acts occur "intentionally or with gross negligence"

For there to be an "*unlawful acquisition*" of trade secrets under Article 3(2) of the proposed Directive, the relevant acts must be "*carried out intentionally or with gross negligence*". We believe this imposes an unnecessary additional requirement, creates undue complexity and would reduce the effectiveness of the proposed Directive. We also note that the concept of "gross negligence" receives different treatment under different countries' laws, giving rise to an unnecessary source of uncertainty in the proposed Directive. Instead, we believe the acts listed in Articles 2(a)-(f) (e.g. "*unauthorised access*", "*theft*" etc.) should be sufficient on their own to render the acquisition in question unlawful.

[‡] For instance, the Commission's consultation revealed that former employees were the most commonly cited perpetrators of trade secret misappropriation (53% of respondents indicating that they had been subject to trade secret misappropriation by former employees; 52% indicated misappropriation by suppliers/customers; 48% indicated misappropriation by competitors).

[§] We note that it could also usefully be clarified that "*within the circles that normally deal with the kind of information in question*" is to be determined on an industry-wide basis (i.e. the fact that a high proportion of employees within the company concerned knew about the information would not be relevant).

Similar requirements (i.e. that acts take place "*intentionally or with gross negligence*") appear in Article 3(3) in relation to the unlawful use or disclosure of trade secrets. Our concerns are even stronger in this context. For instance, we note that companies and individuals will inevitably make judgment calls as to whether they are able to use particular information (e.g. a company might believe it has developed a particular trade secret independently, despite the fact that similar information was disclosed to it under the terms of an NDA). Having made this judgment call (which might be made in good faith), a dispute could arise with the counterparty to the NDA. There would be no "intention" or "gross negligence" to misuse trade secrets involved, but the party in question may still have acted wrongly. We do not believe the courts should be precluded from deciding this type of dispute - this is the type of dispute that arises in practice.

To give a second example, it is well established under English law that misuse of confidential information can take place subconsciously.** Again, we believe the provisions listed in Articles 3(3)(a)-(c) are sufficient without the additional requirement that the acts should occur "*intentionally or with gross negligence*". Alternatively, these concerns could be addressed by an express clarification that the Directive does not prevent Member States from upholding more rigorous standards of trade secret protection under national law (see our third general comment above).

3. Liability of innocent third parties

Article 3(4) specifies that the use or disclosure of a trade secret will be unlawful whenever a person "... *at the time of use or disclosure, knew or should, under the circumstances, have known that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully ...*" (emphasis added). Likewise, Article 3(5) states that the "... *conscious and deliberate production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods for those purposes, shall be considered an unlawful use of a trade secret*" (emphasis added).

Both of these provisions make it possible to bring actions against third parties who were not involved in the initial unlawful acquisition or use of the trade secret (i.e. "innocent" third parties). Indeed, the Commission's explanatory memorandum states that third parties who are "*given notice ... of the original unlawful act*" can be guilty of unlawful use. It is therefore particularly important that these provisions are clearly drafted.

In the case of Article 3(4), it is not entirely clear when it will be said that the third party "*knew or should, under the circumstances, have known*" that the trade secret was obtained from another person who was using or disclosing the trade secret unlawfully. We believe the appropriate balance would be to clarify that these acts will only be unlawful if, either subjectively or objectively, the third party has sufficient information to cause him to realise that it is *likely* (i.e. greater than 50% probability) that the trade secret was obtained from another who was using or disclosing it unlawfully.

** *Seager v Copydex* [1967] 1 W.L.R. 923.

Likewise, in the case, of Article 3(5), it is unclear when a third party could be said to have engaged in the “*conscious and deliberate*” production, offering or placing on the market of infringing goods, or import, export or storage of infringing goods. In this case, we believe the appropriate balance would be to clarify that these acts will only be conscious and deliberate if the third party has sufficient information to cause him to realise that the goods are *likely* to be infringing goods. As with Article 3(4), we believe the test should be both subjective and objective - the “*knew or should, under the circumstances have known*” language should therefore be used for consistency.

4. “Unlawful acquisition” based on “theft”, “bribery” or “deception”

Some of the provisions in the proposed Directive relating to “*unlawful acquisition*” appear to be aimed at providing civil remedies against industrial espionage activities. For instance, they specify that the acquisition of trade secrets by “*theft*”, “*bribery*” or “*deception*” is unlawful, provided that it is done “*intentionally or with gross negligence*”.

However, leaving aside the requirement for intention or gross negligence (see our comments above), the proposed Directive does not elaborate on how the presence of “*theft*” (for example) will be determined. For instance, the crime of “*theft*” will (assuming it exists at all) be defined differently in the laws of each of the Member States. Furthermore, the acts complained of may well have taken place outside the EU and may or may not have amounted to “*theft*” (or even any similar offence) under the laws of the country concerned.

A fundamental question is therefore which law will be applied by the courts for the purposes of Article 3(2), which brings up issues of choice of law. In this regard, we note that the proposed Directive does not deal with jurisdictional issues (for which the Brussels Regulation (Regulation 44/2001) will generally apply) or governing law issues (meaning that the Rome I and Rome II Regulations (Regulations 593/2008 and 864/2007) will generally apply).^{††}

A related question is whether, in determining the presence or otherwise of “*theft*” (for example) the courts would apply the higher criminal standard of proof rather than the civil one. There is also a question as to whether a criminal conviction should be a pre-requisite for the bringing of a civil action under the terms of the Directive. We do not believe a criminal conviction should be a pre-requisite for the bringing of a civil action under the terms of the Directive, since this will lead to unnecessary delay and uncertainty. However, the answers to the remaining issues above are much less clear. In particular, we understand that the proposed Directive seeks to prevent companies in Europe from being harmed by the unlawful acquisition or misuse of their trade secret. However, the acquisition or use in question may have been lawful in the country where it occurred (even if the same acts would not have been lawful in some or all of the Member States).

These issues also do not just arise in relation to criminal acts such as “*theft*”, “*bribery*” or “*deception*”, both Article 3(2) and Article 3(3) cater

^{††} Recital 26 of the proposed Directive makes clear that these matters were not intended to be within scope.

for circumstances where there has been a "*breach a confidentiality agreement or any other duty to maintain secrecy*". For instance, both the "*confidentiality agreement*" and the "*other duty to maintain secrecy*" could arise under the law of a third country (e.g. an NDA governed by US law, or an equitable duty of confidentiality under Australian law). Alternatively, there may be no "*duty to maintain secrecy*" under the law of the country where the trade secrets are transferred, but there would have been a duty had the same activities taken place in a Member State.

Again, it is not clear how the proposed Directive would deal with these scenarios. The options appear to be either:

- (A) that courts in Member States are permitted to analyse the laws of non-EU countries to decide whether an unlawful acquisition or use of trade secrets has occurred in accordance with the law of that non-EU country; or
- (B) that courts in the Member States are permitted to consider events taking place in non-EU countries to decide whether those events would have constituted unlawful acquisition or use of trade secrets if they had taken place in the Member State concerned.

We believe either of these options would be acceptable, but the drafting of the Directive needs to be clear.

5. The limitation period in Article 7

Article 7 provides that actions for any of the measures, procedures and remedies provided for in the proposed Directive must be brought "*not more than two years after the date on which the applicant became aware, or had reason to become aware, of the last fact giving rise to the action*" (see also recital 13). We believe this two year limitation period is too short, since it would inevitably result in actions being initiated solely to avoid them becoming time-barred. It would therefore generate unnecessary litigation. We believe a limitation period of 3 years (or even longer) would be more appropriate. It is also unclear what would constitute "*the last fact giving rise to the action*". This should be clarified.

6. Availability of ex parte measures

The proposed Directive contains no provisions relating to *ex parte* relief (e.g. search orders and *ex parte* interim injunctions). It should certainly be clarified that the Directive does not prevent the granting of such relief where national law permits, which we believe was the Commission's intention. We would also support the availability of *ex parte* search in cases where there was a serious prospect that evidence would be destroyed or hidden.

7. Loser pays costs provisions

The Directive does not seek to impose the "loser pays" principle. In contrast, Article 14 of the IP enforcement directive provides that: "*Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne*

by the unsuccessful party, unless equity does not allow this." We believe a corresponding provision should be included in the proposed Directive in order to minimise abusive litigation.

8. Protection of confidentiality during court proceedings

As noted, we are generally in favour of the current drafting of the proposed Directive. Our comments are therefore made in support of the current approach, given concerns that we have heard raised.

Consistent with the responses to the Commission's consultation, we believe courts throughout Europe should be able to protect confidential information such that it does not automatically and necessarily become public as a result of litigation. For example, we believe courts should be able to sit in private when appropriate in order to prevent public disclosure of parties' confidential information. Likewise, courts should have mechanisms for the filing of confidential documents with the court such that confidentiality is maintained. We believe this is the minimum that parties should be able to expect.

That said, we believe judges and national courts should be able to exercise discretion as to how confidential information is to be protected in any given case. We also believe that it should only be in the most exceptional cases that the parties themselves (or, at least, a senior representative of each of the parties) should not have access to the confidential information that is the subject of the dispute.

IP Federation
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IP Federation members 2014

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd
Airbus
ARM Ltd
AstraZeneca plc
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Dyson Technology Ltd
Element Six Ltd
Eli Lilly & Co Ltd
ExxonMobil Chemical Europe Inc.
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
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IBM UK Ltd
Infineum UK Ltd
Johnson Matthey PLC
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Nokia UK Ltd
Pfizer Ltd
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